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November 8, 2011



VIA FEDERAL EXPRESS

Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, S.W., Room 1034
Washington, DC 20024

Part of
Public Record

Re: **Finance Docket No. 35562**
Iowa Interstate Railroad, Ltd. – Lease Exemption –
Line of Cedar Rapids and Iowa City Railway Company

Dear Ms. Brown:

Enclosed for filing in the above-captioned proceeding are an original and ten copies of the **Petition for Exemption of Iowa Interstate Railroad, Ltd.**, dated November 8, 2011. A check in the amount of \$6,600, representing the appropriate fee for this filing, and a compact disk containing the text of the Petition in MS Word 2003 format also are enclosed.

An extra copy of the Petition and of this transmittal letter are included as well. I would request that you date-stamp those items to show receipt of this filing and return them to me in the provided envelope.

Should any questions arise regarding this filing, please feel free to contact me. Thank you for your assistance on this matter. Kind regards.

FILED

NOV 09 2011

**SURFACE
TRANSPORTATION BOARD**

TJL:tl

Enclosures

cc: Shippers on Certificate of Service

Respectfully submitted,

Thomas J. Litwiler

Attorney for Iowa Interstate Railroad, Ltd.

FEE RECEIVED

NOV. 09, 2011

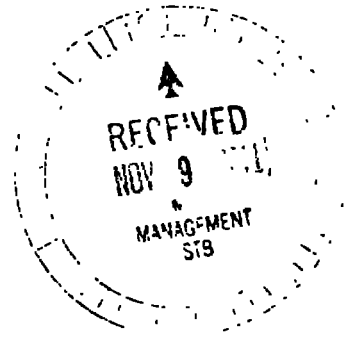
**SURFACE
TRANSPORTATION BOARD**

ORIGINAL

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 35562

IOWA INTERSTATE RAILROAD, LTD.
-- LEASE EXEMPTION --
LINE OF CEDAR RAPIDS AND IOWA CITY RAILWAY COMPANY



PETITION FOR EXEMPTION OF
IOWA INTERSTATE RAILROAD, LTD.

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TRANSPORTATION BOARD**

FILED

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**SURFACE
TRANSPORTATION BOARD**

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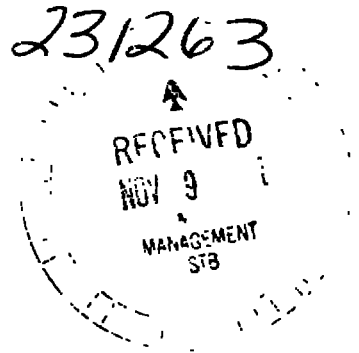
**ATTORNEYS FOR IOWA INTERSTATE
RAILROAD, INC.**

Dated: November 8, 2011

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 35562

IOWA INTERSTATE RAILROAD, LTD.
-- LEASE EXEMPTION --
LINE OF CEDAR RAPIDS AND IOWA CITY RAILWAY COMPANY



**PETITION FOR EXEMPTION OF
IOWA INTERSTATE RAILROAD, LTD.**

Pursuant to 49 U.S.C. § 10502 and the regulations of the Surface Transportation Board (the "Board") at 49 C.F.R. § 1121, Iowa Interstate Railroad, Ltd. ("IAIS") submits this petition for an exemption from the prior review and approval requirements of 49 U.S.C. § 10902 for IAIS's lease of approximately 8.0 miles of rail line owned by Cedar Rapids and Iowa City Railway Company ("CRANDIC") and extending from Iowa City to Hills, Iowa (the "Hills Line"). IAIS is better positioned than CRANDIC to conduct effective rail operations on the Hills Line, and will be able to improve rail service to the three active shippers on the line. A copy of this petition has been served on each of those shippers. As demonstrated further below, exemption of this transaction clearly is warranted under the relevant standards of Section 10502.

A map showing the Hills Line and other rail lines in the vicinity is attached hereto as Exhibit A. In support of this Petition for Exemption, IAIS submits the following:

I. BACKGROUND

A. Identification of Parties

Petitioner IAIS is a Class II common carrier by rail which owns or operates approximately 551 route miles of rail line in the states of Illinois and Iowa. IAIS's principal route extends from Blue Island, Illinois, outside of Chicago, to Council Bluffs, Iowa. A primary

branch line extends from Bureau, Illinois, on the Blue Island-Council Bluffs line, to Peoria, Illinois. Secondary branch lines reach Milan, Illinois and Prairie City, Grimes and Oakland, Iowa. IAIS began operations in 1984, over rail lines previously owned by the bankrupt Chicago, Rock Island & Pacific Railroad Company (the "Rock Island"). See generally Iowa Interstate Railroad, Ltd. -- Lease and Operate -- Exemption, Finance Docket No. 30554 (ICC served October 1, 1984).

IAIS controls the Lincoln & Southern Railroad Company, a non-operating Class III rail carrier which owns a portion of IAIS's Peoria Branch. See Iowa Interstate Railroad, Ltd. -- Acquisition of Control Exemption -- Lincoln & Southern Railroad Company, Finance Docket No. 34942 (STB served December 22, 2006). IAIS is itself owned by Railroad Development Corporation, a non-carrier holding company.

The complete name and address of petitioner IAIS is:

Iowa Interstate Railroad, Ltd.
5900 6th Street S.W.
Cedar Rapids, IA 52404
(319) 298-5400

CRANDIC is a Class III common carrier by rail which owns and operates approximately 60 route miles of rail line extending southeast and southwest from Cedar Rapids, Iowa. CRANDIC began operations in 1904 as an interurban railway between Cedar Rapids and Iowa City, Iowa. In 1980, CRANDIC acquired a rail line between Cedar Rapids and Amana/Homestead, Iowa from the bankrupt Chicago, Milwaukee, St. Paul & Pacific Railroad Company. That line connects with what is now IAIS's main line near Homestead, and IAIS operates over CRANDIC's trackage between Homestead and Cedar Rapids. Also in 1980, CRANDIC acquired the Hills Line from the Rock Island bankruptcy trustee.

CRANDIC is a subsidiary of Alliant Energy Corporation, an Upper Midwest public utility holding company.

B. The Subject Rail Line

The Hills Line extends from a connection with CRANDIC's Cedar Rapids-Iowa City line at milepost 25.0 near Burlington Street in Iowa City to the end of track at milepost 33.4 in Hills, Iowa, a distance of approximately 8.4 miles. At Maiden Lane in Iowa City, near milepost 26, the Hills Line connects with IAIS's so-called "Hill Track," which extends a short distance to IAIS's main line and Iowa City Yard. The IAIS main line, the Hill Track, and most of the Hills Line are former Rock Island trackage, and were operated as part of a single carrier system through the Rock Island bankruptcy. The Hills Line was acquired by CRANDIC in 1980 in order to preserve service on that branch line, while the other former Rock Island trackage in Iowa City is today owned and operated by IAIS.

There are three active shippers on the Hills Line (two at Iowa City and one at Hills), generating approximately 600 annual carloads of traffic. CRANDIC currently provides rail service on the line as needed, typically 1-2 days per week, utilizing a crew based some 25 miles away in Cedar Rapids. CRANDIC does not have significant other traffic on its Cedar Rapids-Iowa City line, and thus faces a fairly long and inefficient operation to reach and service the isolated Hills Line.

C. The Proposed Transaction

Pursuant to a Lease Agreement dated as of October 29, 2011 between CRANDIC and IAIS, IAIS proposes to lease the Hills Line from CRANDIC and to maintain and operate the line. The lease is for a term of five years, subject to extension by the parties.

IAIS will provide service on the Hills Line using a crew based at IAIS's nearby Iowa City Yard. The close proximity of IAIS yard and crew resources to the Hills Line will allow IAIS to be responsive to the shipping needs of shippers on the line, and IAIS anticipates increasing service on the line to 2-3 days per week as warranted. As indicated above, the Hills Line was historically part of the Rock Island system, and the proposed lease will reunite operation of the branch with IAIS's former Rock Island main line through Iowa City.

IAIS believes that each of the three shippers on the Hills Line supports the proposed lease, and a copy of this petition is being served on those shippers.

II. JURISDICTION AND STATUTORY STANDARDS

Pursuant to 49 U.S.C. § 10902, enacted by the ICC Termination Act of 1995,¹ a Class II rail carrier may acquire a line of railroad from another carrier if the Board finds that the acquisition is not inconsistent with public convenience and necessity. 49 U.S.C. § 10902(a), (c). Section 10902 embraces lease transactions such as that proposed here. Chicago Rail Link, L.L.C. -- Lease & Oper. -- Union Pacific R. Co., 2 S.T.B. 534, 541 (1997), aff'd sub nom. United Transp. Union-Illinois Legis. Bd. v. STB, 169 F.3d 474, 479-480 (7th Cir. 1999). Under 49 U.S.C. § 10502, however, the Board must exempt a transaction from regulation under Part A of Subtitle IV of Title 49 of the U.S. Code (including Section 10902) if the Board finds that: (1) regulation is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either (a) the transaction is of limited scope or (b) regulation is not necessary to protect shippers from the abuse of market power.

In enacting the Staggers Rail Act of 1980, Congress made clear its intent that the Interstate Commerce Commission would use its expanded exemption authority under former

¹ Pub. L. No. 104-88, 109 Stat. 803 (1995).

Section 10505 to free certain transactions and service from the administrative and financial costs associated with continued regulation:

The policy underlying this provision is that while Congress has been able to identify broad areas of commerce where reduced regulation is clearly warranted, the Commission is more capable through the administrative process of examining specific regulatory provisions and practices not yet addressed by Congress to determine where they can be deregulated consistent with the policies of Congress. The conferees expect that, consistent with the policies of this Act, the Commission will pursue partial and complete exemption from remaining regulation.

H.R. Conf. Rep. No. 1430, 96th Cong. 2d Sess. 105 (1980). Congress reaffirmed this policy in the conference report accompanying the ICC Termination Act of 1995, which reenacted the existing exemption provisions as Section 10502. H.R. Conf. Rep. No. 422, 104th Cong. 1st Sess. 168-169 (1995).

An exemption from the requirements of Section 10902 for IAIS's lease of the Hills Line would be fully consistent with the standards set forth in Section 10502. Detailed scrutiny of the transaction, through an application for review and approval under Section 10902, is unnecessary to carry out the rail transportation policy of 49 U.S.C. § 10101. In fact, exemption from such review and approval would further several of the objectives established in the transportation policy. Moreover, the proposed transaction is of limited scope and will not result in any abuse of market power.

III. EXEMPTION CRITERIA

A. Regulation Is Not Necessary to Carry Out the Rail Transportation Policy Of 49 U.S.C. § 10101.

IAIS's lease and operation of the Hills Line is wholly consistent with the rail transportation policy outlined in 49 U.S.C. § 10101. The proposed transaction will allow IAIS to provide more efficient and frequent rail service to shippers on the Hills Line, and enhance the

long-term viability of operations on the line. As such, exemption will promote the continuation of a sound rail system to meet the needs of the public. 49 U.S.C. § 10101(4). IAIS's lease of the Hills Line will re-integrate operations in the Iowa City area that historically were conducted by a single carrier, and allow CRANDIC to focus resources and attention on its remaining core rail lines. Thus, the transaction also will promote efficiency, coordination and competition among rail carriers and other transport modes. See 49 U.S.C. §§ 10101(4), (5) and (9).

Granting the relief sought herein will advance several other goals enumerated in the rail transportation policy as well. Section 10101 provides that the Board should minimize the need for federal regulatory control over the rail transportation system, reduce the barriers to entry into and exit from the rail transportation industry and provide for the expeditious resolution of all proceedings. 49 U.S.C. §§ 10101(2), (7) and (15). The statutory exemption contained in Section 10502 obviates the need for the expensive and time-consuming processes attendant to a proceeding under Section 10902. By limiting the level of regulatory review of this transaction and by relying upon the adequate and more expeditious exemption procedure, the Board would minimize the burden of unnecessary regulation on this transaction. E.g., Livonia, Avon & Lakeville Railroad Corporation -- Acquisition and Operation Exemption -- Line of Consolidated Rail Corporation, Finance Docket No. 32754 (STB served March 11, 1996) at 4.

B. Regulation Is Not Necessary to Protect Shippers From an Abuse of Market Power

IAIS's lease of the Hills Line will have no adverse impact on competition. No shipper will lose access to rail service, and operations to be conducted by IAIS will simply replace those previously performed by CRANDIC. Indeed, as indicated above, IAIS should be better positioned to respond to the service needs of the three existing shippers on the Hills Line and any businesses that may locate on the line in the future. Because approval of the proposed

lease will not lessen competition or transportation options for any such shippers, the transaction satisfies the market abuse standard set forth in 49 U.S.C. § 10502(a)(2)(B).

C. The Transaction Is Limited in Scope

Because regulation is not necessary to protect shippers from an abuse of market power, LAIS need not demonstrate that the proposed transaction is of limited scope. 49 U.S.C. § 10502(a)(2); Fort Worth & Western Railroad Company, Inc. -- Lease Exemption -- St. Louis Southwestern Railway Company, Finance Docket No. 32955 (STB served September 5, 1996) at 3. Nevertheless, it is clear that LAIS's lease of the Hills Line satisfies this criterion as well. The proposed transaction involves the lease and operation of a short, 8-mile light density rail line in a single state by a connecting carrier which already conducts significant operations in the area. There are only three active shippers on the line, and no diminishment of service levels will occur. Accordingly, the Board should find that this transaction is of limited scope within the meaning of Section 10502(a)(2)(A).

IV. LABOR PROTECTION

Under 49 U.S.C. § 10502(g), the Board may not exempt a rail carrier from otherwise applicable employee protection obligations. The applicable level of labor protection for this transaction is that specified by 49 U.S.C. § 10902(d) and Wisconsin Central Ltd. -- Acq. Exem. -- Union Pacific R. Co., 2 S.T.B. 218 (1997), rev'd in part sub nom. Association of Amer. Railroads v. STB, 162 F.3d 101 (D.C. Cir. 1998). LAIS's lease of the Hills Line from CRANDIC is not expected to result in the dismissal of any CRANDIC employees.

LAIS posted and served the 60-day labor notice required by 49 C.F.R. § 1121.4(h) on November 3, 2011, and certified its compliance with those requirements to the Board on November 7, 2011.

V. ENVIRONMENTAL ASSESSMENT

A petition for exemption must comply with the Board's environmental reporting requirements, if applicable. 49 C.F.R. § 1121.3(a). Under 49 C.F.R. § 1105.6(c)(2), IAIS's proposed lease of the Hills Line is exempt from environmental reporting requirements. The proposed lease will not result in significant changes in carrier operations, i.e., changes that exceed the thresholds of 49 C.F.R. § 1105.7(e)(4) or (5).

Under 49 C.F.R. § 1105.8(b)(1), the proposed lease of the Hills Line by IAIS also is exempt from historic preservation reporting requirements. IAIS's lease of the line is for the purpose of continuing rail operations. Further Board approval would be required as a prerequisite to any discontinuance of service by IAIS or abandonment by CRANDIC, and there are no plans in connection with this transaction to dispose of or alter properties subject to the Board's jurisdiction that are 50 years old or older.

WHEREFORE, IAIS respectfully requests that the Board grant an exemption from the provisions of 49 U.S.C. § 10902 for IAIS's lease of CRANDIC's line of railroad between Iowa City and Hills, Iowa.

Respectfully submitted,

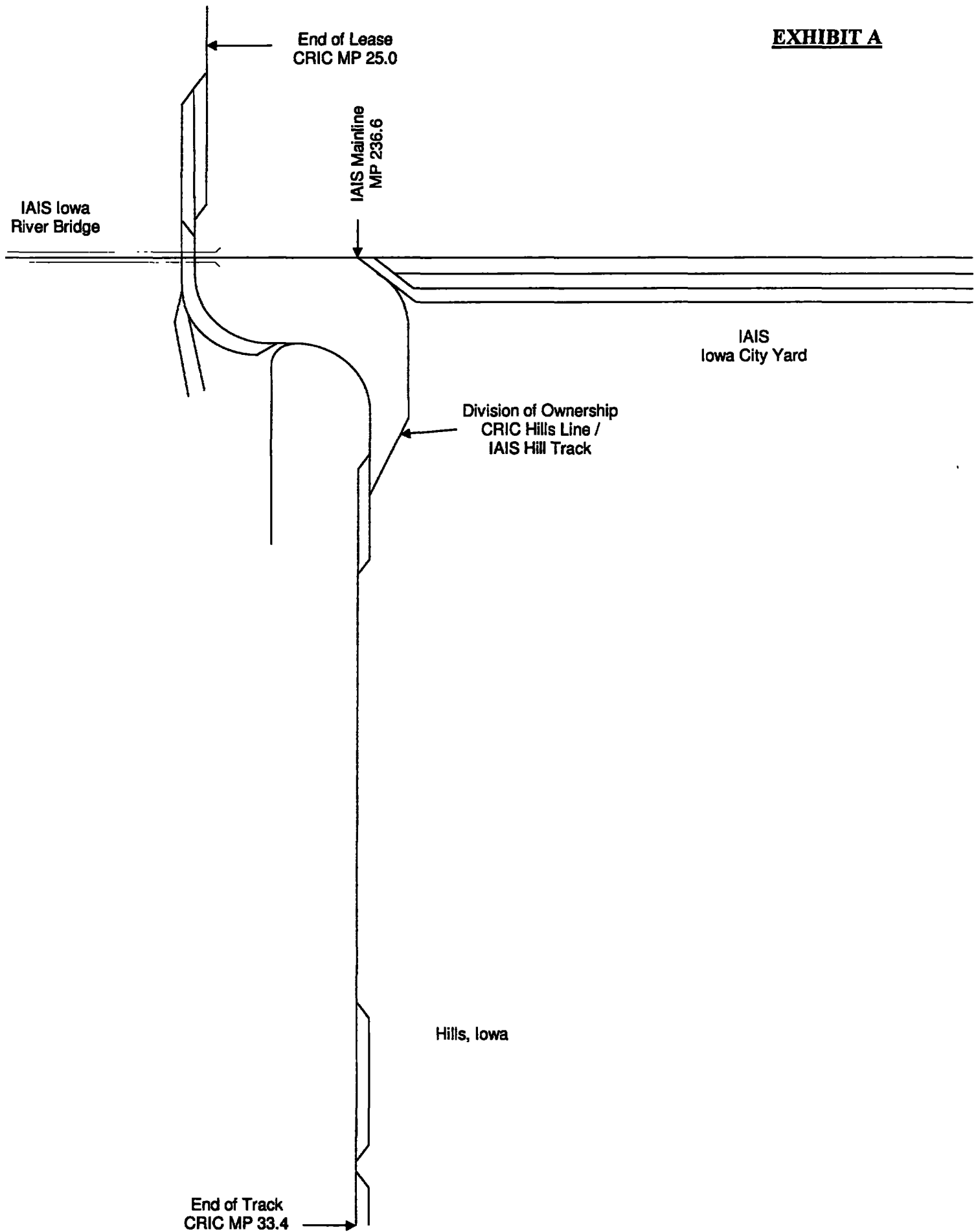
By: 

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**ATTORNEYS FOR IOWA INTERSTATE
RAILROAD, LTD.**

Dated: November 8, 2011

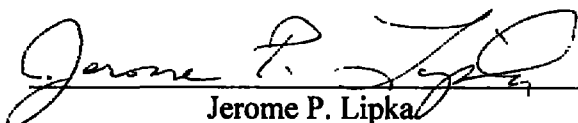
EXHIBIT A



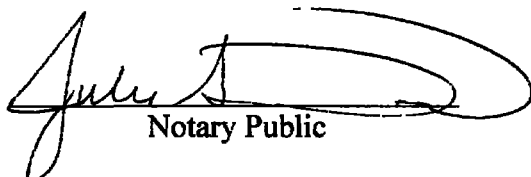
VERIFICATION

State of Iowa)
) SS:
County of Linn)

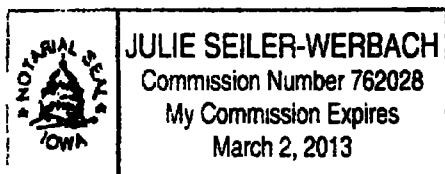
Jerome P. Lipka, being duly sworn, deposes and says that he is Executive Vice President - Chief Financial Officer of Iowa Interstate Railroad, Ltd., that he has read the foregoing Petition for Exemption and knows the facts asserted therein, and that the same are true as stated.


Jerome P. Lipka

SUBSCRIBED AND SWORN TO
before me this 7 day
of November, 2011.


Notary Public

My Commission expires:



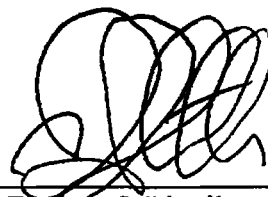
CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of November, 2011, a copy of the foregoing
Petition for Exemption of Iowa Interstate Railroad, Ltd. was served by first class mail,
postage prepaid, upon:

City Carton Recycling
3 East Benton Street
Iowa City, IA 52240-1509

Nagle Lumber
1201 South Gilbert Street
Iowa City, IA 52240-4507

Eldon C. Stutsman, Inc.
121 Lassie Street
Hills, IA 52235

A handwritten signature in black ink, appearing to read 'T. Litwiler', is written over a horizontal line.

Thomas J. Litwiler